

Getting started: developing aged care strategies for your clients

Aged care advice can be complex, but if you're already offering retirement planning and superannuation advice, with appropriate development, support and tools, you can navigate aged care too. Here are some insights into the fundamentals to give you a head start with delivering strategies and recommendations to suit your clients.

The three key variables

As an aged care adviser, you may be taking part in discussions where clients need to consider the personal impact of choices they're facing. While these factors cannot be ignored, your contribution to the process is your experience and expertise, as well as advice on affordability. These will be key drivers for any recommendations.

When assessing affordability as a factor in different aged care strategies, you may need to take into account the following circumstances for each client:

- **Assets and income**

Your clients' assets and income are critical in developing an aged care strategy. These inputs determine their liability for contributions to aged care fees as well as social security entitlements. Because of this dual impact on affordability, it's important to understand how different types of assets and income are assessed for the means-tests.

- **The family home**

Many clients have concerns about selling the family home and may consider renting their property to fund aged care fees. In looking at this scenario, there can be additional costs to factor in, including funds needed to bring the home up to rental standard and keep it maintained, Capital Gains Tax (CGT) consequences and Land Tax according to state requirements.

- **Social security payments**

Together with savings and income from investments, social security payments can be an important component of a cash flow forecast for aged care fees and other living expenses.

A simple way to crunch the numbers

For an easier way to assess affordability, we've created the Challenger [Aged Care Calculator](#). You can use this comprehensive tool to model scenarios and calculate the results for aged care fees, social security entitlements, cash flow and projected estate value for each one.



Aged care strategies in action: Jane's story

About Jane

Jane is 85 and widowed. She was living on her own for some time after her husband passed away but has become frail with age. After researching her options with the help of her family, Jane was assessed by an Aged Care Assessment Team (ACAT) as eligible for residential care and found a suitable aged care home to move into.

Jane's finances

Jane's residential aged care home has an advertised accommodation payment of \$400,000. She agrees to that amount and sells her home to pay the Refundable Accommodation Deposit (RAD) of \$400,000. She now has \$300,000 in term deposits and \$50,000 in cash and wants to explore other strategies for this money.

If Jane leaves her money in cash and term deposits, based on social security and aged care rates and thresholds as at 20 September 2019, her year one estimated Age Pension entitlement is \$21,798. Also, her total aged care fees are \$29,335 (consisting of a basic daily care fee of \$18,845 and a means-tested care fee of \$10,490).

The financial adviser's recommendation

Jane visits a financial adviser to find out whether she will be able to pay for her aged care fees and \$2,600 per year (\$50 per week) of other ongoing living expenses.

The first strategy Jane's financial adviser considers is to retain her existing portfolio of term deposits and cash. Her financial adviser estimates, as illustrated in Figure 2, if the strategy was implemented, Jane's total ongoing aged care costs over the next three years are projected to be \$88,496.

After factoring in her total income over the three-year period, including the Age Pension, there is a total shortfall of \$13,302 that will need to be funded.

Jane's financial adviser explores an alternative strategy to help improve this outcome – an investment in Challenger CarePlus (CarePlus).

Her adviser explains that the most appropriate strategy will be one that helps meet her ongoing cash flow and estate planning wishes. CarePlus is designed especially for those who are receiving, or planning to receive, Government-subsidised aged care services (including both home and residential care).

CarePlus will provide Jane with a guaranteed monthly income for the rest of her life to help cover the costs of aged care and living expenses. In the event Jane passes away, 100%¹ of the amount she invested will be paid to her nominated beneficiaries, in this case her children.

CarePlus may also help reduce Jane's aged care fees and increase her Age Pension entitlements from the way it interacts with the means testing rules.

To help Jane achieve her objectives, her financial adviser recommends an investment of \$300,000 into CarePlus.

The remaining \$50,000 will stay in cash in case Jane needs access to funds. Figure 1 compares the outcomes of the different strategies in year one. Figure 2 illustrates the outcome after three years.

By investing in CarePlus, Jane can improve her cash flow and maximise the value of any benefit payable to her children directly when she passes away.

¹ CarePlus provides a death benefit of 100% of the total amount invested. However, if you reside in South Australia stamp duty (currently 1.5% of the insurance premium) will be deducted from the sum insured before it is distributed to beneficiaries and/or the estate.

Figure 1: Illustrating cash flow and estate planning outcomes for year one

Year one	Strategy 1	Strategy 2
	Retain \$350,000 in cash and term deposits	Invest \$300,000 in Challenger CarePlus, \$50,000 in cash
Cash flow		
Investment income	\$5,250	\$750
CarePlus	\$0	\$7,208
Age Pension	\$21,798	\$24,118
Less personal expenses	\$2,600	\$2,600
Total	\$24,448	\$29,476
Aged care fees		
Basic daily fee	\$18,845	\$18,845
Means-tested care fee	\$10,490	\$8,917
Total	\$29,335	\$27,762
Net cash flow	(\$4,887)	\$1,714
Estate value (at the end of year one)	\$745,113	\$751,714

Figure 2: Illustrating cash flow and estate planning outcomes over three years

First three years	Strategy 1	Strategy 2
	Retain \$350,000 in cash and term deposits	Invest \$300,000 in Challenger CarePlus, \$50,000 in cash
Total cash flow	\$75,194	\$90,290
Total aged care fees	\$88,496	\$84,310
Net cash flow	(\$13,302)	\$5,980
Estate value (at the end of year three)	\$736,697	\$755,981

Strategy considerations

By implementing a CarePlus strategy, in comparison to the term deposit strategy for the illustrated periods, as described in Figure 1 and Figure 2, Jane has been able to achieve:

- a guaranteed income stream for life from CarePlus to help pay for aged care fees;
- a \$2,320 increase in Age Pension entitlement and a reduction in her means-tested care fee of \$1,573 in year one;
- improved net cash flow of \$6,601 in year one, increasing to \$19,282 over a three year period; and
- an increased benefit to the estate of \$6,601 at the end of year one, increasing to \$19,284 at the end of year three (under each strategy the RAD of \$400,000 will be paid to the estate).

The cash flow and estate planning benefits of the CarePlus strategy can continue past the three-year illustrated period while Jane remains in care.

Results from the Challenger Aged Care Calculator as at 09/12/2019. Assumes bank account and term deposit earning rate of 1.5% p.a., Challenger CarePlus rates based on a female (date of birth 01/01/1934), residing in NSW, monthly payments and no adviser fees. The estate value includes the RAD of \$400,000, with any cash flow deficit being funded from the bank account, excludes any term deposit break fees and includes proceeds from CarePlus.

Demonstrating the value of advice

Conversations about aged care aren't just about what your client can afford. As an adviser, you can play an important role in the discussion by presenting cash flow strategies based on a number of scenarios a client is facing.

By preparing and sharing your advice with your client, they can explore their options and keep in mind the likely impact on their aged care fees, social security entitlements and cash flow position. This can support them in making choices based on a clear understanding of the overall affordability of aged care, as well as any other personal or financial goals they may wish to consider.

Discover how Challenger can support you in developing aged care advice for your clients



Call the Challenger Adviser Services team on 1800 621 009 or speak to your [Challenger BDM](#)



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